International Business Environments and Operations, 13/e

Part Three

Theories and Institutions: Trade and Investment



Chapter 8

Cross-National Cooperation and Agreements

Chapter Objectives

- To identify the major challenges of the World Trade Organization
- To discuss the pros and cons of global, bilateral, and regional integration
- To describe the static and dynamic impact of trade agreements on trade and investment flows
- To define different forms of regional economic integration
- To compare and contrast different regional trading groups, including but not exclusively the European Union (EU), the North American Free Trade Agreement (NAFTA), the Southern Common Market (MERCOSUR), and the Association of Southeast Asian Nations (ASEAN)
- To describe other forms of global cooperation such as the United Nations and the Organization of the Petroleum Exporting Countries (OPEC)

Economic Integration

Approaches to economic integration may be:

- **Bilateral integration-**two countries cooperate closely, usually in the form of tariff reductions.
- **Regional integration-**a group of countries located in the same geographic proximity decide to cooperate, i.e. the European Union.
- **Global integration-**countries worldwide cooperate

  through the WTO.

The World Trade Organization

- GATT: Predecessor to the WTO
- Most Favored Nation
- Dispute Settlement
- The Rise of Bilateral Agreements

Regional Economic Integration

- Regional trade agreements—integration confined to a region and involving more than two countries.
- Geographic proximity is an important reason for economic integration.

Major Types of Economic Integration

- Free trade area—no internal tariffs.
- Customs union—no internal tariffs plus common external tariffs.
- Common market—customs union plus factor mobility.

Effects of Integration

- Static Effects
- Dynamic Effects
- Trade Creation
- Trade Diversion
- Economies of Scale
- Increased Competition

Major Regional Trading Groups

- European Union
- North American Free Trade Agreement
- The Americas: CARICOM, MERCOSUR, CAN, LAIA
- ASEAN
- APEC
- The African Union

European Union

- Predecessors
- Organizational Structure
- The Single European Act
- Monetary Union
- Expansion
- Bilateral Agreements

How to Do Business with the EU: Implications for Corporate Strategy

- Companies need to determine where to produce products.
- Companies need to determine what their entry strategy will be.
- Companies need to balance the commonness of the EU with national differences.

North American Free Trade Agreement

- Includes Canada, the United States, and Mexico.
- Went into effect on January 1, 1994.
- Involves free trade in goods, services, and investment.
- Is a large trading bloc but includes countries of different sizes and wealth.

NAFTA Rational

- U.S.-Canadian trade is the largest bilateral trade in the world.
- The United States is Mexico’s and Canada’s

  largest trading partner.

Rules of Origin and Regional Content

- Rules of origin-goods and services must originate in North America to get access to lower tariffs.
- Rules of Regional Content-50 % of the net cost of most products must come from the NAFTA region

Impact of NAFTA

- Wages, Investment, and Labor: An abundance of cheap labor and lax environmental standards has enticed U.S. companies to invest heavily in Mexico
- A major challenge to NAFTA is illegal immigration.

How to Do Business with NAFTA: Implications for Corporate Strategy

- Predictions and Outcomes
  - Companies would look at NAFTA as one big regional market
  - U.S. companies would run Canadian and Mexican companies out of business once the markets opened up
  - Mexico looked at as a consumer market rather than a production location

Regional Economic Integration in the Americas

- The Caribbean Community CARICOM
- MERCOSUR
- The Andean Community (CAN)
- Latin American Integration Association (LAIA)

Economic Integration in Central America and the Caribbean



Latin American Economic Integration



Regional Economic Integration in Asia

- **Association of Southeast Asian Nations (ASEAN)**
- Brunei Darussalam, Cambodia, China, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam


ASEAN
Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, Vietnam
MYANMAR
LAOS
THAILAND
VIETNAM
CAMBODIA
PHILIPPINES
Pacific Ocean
BRUNEI DARUSSALAM
MALAYSIA
SINGAPORE
INDONESIA
0
1000 mi
0
1000 km

Calls for Closer Cooperation

- Asia Pacific Economic Cooperation (APEC)
- Challenges to Solidity
  - Lack of binding treaties
- Goal of “Open Regionalism”
  - Trade liberalization to non-APEC countries on an unconditional, MFN, or reciprocal basis

Regional Economic Integration in Africa

There are several African trade groups, but

they rely more on their former colonial

owners and other developed markets for trade

than they do on each other.

Future: Will the WTO Overcome Bilateral and Regional Integration Efforts?

- Regional integration might actually help the WTO achieve its objectives
- NAFTA and the EU will continue to develop stronger linkages and expand
- Regional integration in Africa will continue at a slow pace due to the existing political and economic problems there

Other Forms of International Cooperation

- The United Nations
- Nongovernmental Organizations (NGOs)
- Global Compact

Commodity Agreements

- Commodities-raw materials or primary products that enter into trade, such as metals or agricultural products.
- Many commodity agreements now exist for the purpose of:
  - Discussing issues
  - Disseminating information
  - Improving product safety

Organization of Petroleum Exporting Countries (OPEC)

- Price Controls and Politics
- Output and Exports
- The Downside of High Prices